

FDIC State Profile

Summer 2005

Georgia

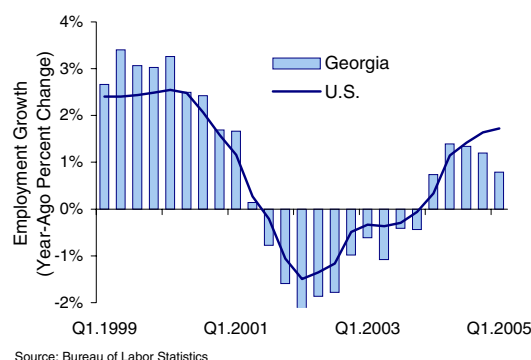
Georgia's economic expansion has weakened.

- Although Georgia's economic expansion continues, the pace of growth has steadily declined in recent quarters as weakening employment gains spread to several sectors of the economy. In first quarter 2005, employment in the state was up 0.8 percent from a year earlier; just under half the corresponding gain nationally (See Chart 1). Other labor force indicators also point toward moderating growth. Initial unemployment insurance claims have bottomed out, while jobless rates have crept upward, eclipsing post-recession highs. Income growth has lagged the nation throughout the recovery.
- Economic performance has not been uniform across the state. Although **Savannah** was the state's fastest growing metropolitan area in first quarter 2005, job growth there was only slightly greater than the national average. **Atlanta** saw year-ago job gains of less than 1 percent, while **Hinesville**, **Macon**, and **Augusta** suffered actual employment losses.
- A number of factors may affect the economic outlook for Georgia. Among them, Delta Airlines, Atlanta's largest private employer, continues to face financial hurdles. Similarly, the recent recommendations of the Base Realignment and Closure (BRAC) Commission suggest that the metropolitan area could stand to lose 6,600 civilian and military positions. In contrast, the BRAC would have a much more sanguine effect on southern areas of the state, such as **Columbus**, **Warner Robins**, and **Valdosta**, which would benefit from proposed expansions of nearby military installations. Statewide, BRAC would result in a net increase of 7,200 personnel, the second highest gain in the nation.

Community bank lending is supporting near record levels of homebuilding.¹

- Although remaining near historic highs, the pace of homebuilding in Georgia may have plateaued as permit issuance through first quarter 2005 was down modestly

Chart 1: Georgia Job Growth Has Moderated



Map 1: Home Price Appreciation in Most Georgia Metros Remains Below the National Average

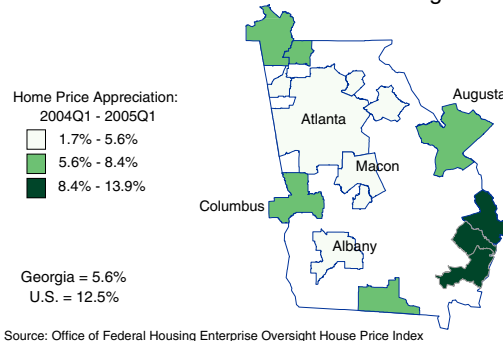
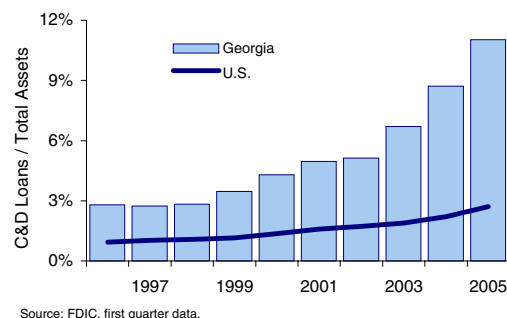


Chart 2: Construction and Development Lending Surges in Georgia



¹Community banks include all financial institutions with assets less than \$1 billion and exclude specialty and de novo institutions.

from a year earlier. The rapid expansion in housing supply in recent years has helped constrain home price appreciation in the state for several quarters, despite growth in home sales. With the exception of Savannah, price gains among the state's metropolitan areas have lagged the national average (See Map 1).

- Construction and development (C&D) lending at community banks grew nearly 45 percent at first quarter 2005 from a year ago. Subsequently, median C&D loan exposure rose to 11 percent of assets, up from 8.7 percent a year earlier. The growth pushed the median C&D exposure levels in the state to four times the national level (See Chart 2). Georgia is home to five of the top 25 metros nationally in terms of capital exposure, Savannah, Atlanta, and Macon rank within the top ten. Other areas include Augusta and Brunswick.

Slowing population gains and muted income growth could weigh on housing markets.

- Population growth in Georgia has declined, which could eventually act as a structural constraint on gains in the state's residential markets. Between 1996 and 2000, the state's population increased on average by 180,000 annually, while gains subsequently have averaged just under 150,000 per year. In 2004, only 67,000 new households were formed in the state, compared with the more than 100,000 permits issued.
- Home price appreciation has remained comparatively subdued; however, housing affordability could emerge as an issue in Georgia. Given the slow pace of the expansion, income growth has failed to keep pace with even the modest gain in prices statewide (See Chart 3). Although still below the national average, home prices rose to 2.8 times incomes in 2004—the highest ratio in nearly 20 years (See Chart 4). Interest-only mortgages accounted for 55 percent of securitized originations in metropolitan Atlanta last year and a much higher 67 percent in Athens. The fact that slightly more than half of all securitized mortgage originations in the state were interest-only in 2004—the highest share in the nation—may suggest that homebuyers are having difficulty purchasing more expensive homes.² Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.

Bank returns improved despite falling noninterest revenues.

- During first quarter 2005, Georgia community banks had an increase in their return on assets (ROA). Despite a steady erosion of noninterest income, average ROA jumped 6 basis points to 1.19 percent. Lower fee income

from deposit accounts led the decline in noninterest revenue, which fell for the third consecutive quarter. Reduced operating costs combined with lower provision expenses contributed to the ROA increase (See Chart 5).

Chart 3: Income Growth in Georgia Lags Home Price Appreciation

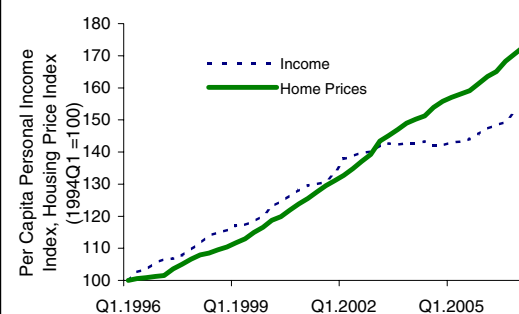


Chart 4: Georgia's Home Price-to-Income Ratio Remains Well Below the National Average

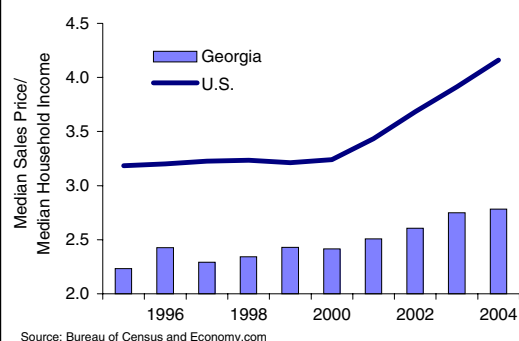
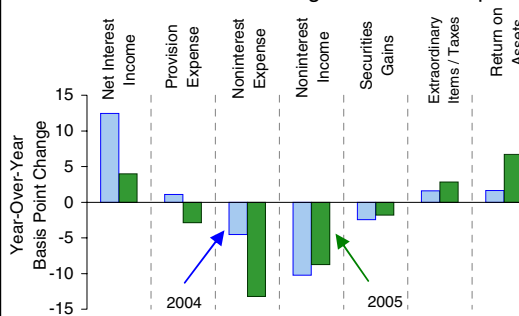


Chart 5: Georgia Community Bank Return on Assets Benefited From Falling Noninterest Expense



²Peter Coy, "A Growing Tide of Risky Mortgages," *Business Week*, May 18, 2005.

Georgia at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.8%	0.7%	-0.6%	-2.9%	1.7%
Manufacturing (11%)	-1.6%	-2.9%	-2.2%	-9.3%	-3.3%
Other (non-manufacturing) Goods-Producing (5%)	0.1%	2.2%	-2.9%	-2.4%	0.3%
Private Service-Producing (67%)	0.9%	1.5%	-0.9%	-2.9%	2.9%
Government (16%)	2.3%	-0.3%	2.6%	2.5%	1.5%
Unemployment Rate (% of labor force)	5.0	4.3	4.8	4.8	3.6
Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.7%	1.9%	2.3%	5.3%
Single-Family Home Permits	0.6%	19.6%	-1.0%	-0.2%	0.4%
Multifamily Building Permits	-36.8%	3.2%	-23.6%	3.7%	-11.8%
Existing Home Sales	14.2%	10.0%	3.0%	6.2%	17.6%
Home Price Index	5.6%	4.1%	4.6%	4.8%	8.0%
Bankruptcy Filings per 1000 people (quarterly level)	2.15	2.26	2.40	2.15	2.02

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	344	346	343	350	361
Total Assets (in millions)	226,187	218,622	199,666	176,922	177,210
New Institutions (# < 3 years)	34	34	38	44	48
Subchapter S Institutions	60	57	54	48	41
Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.48	1.57	1.99	2.11	2.04
ALLL/Total Loans (median %)	1.31	1.35	1.37	1.35	1.34
ALLL/Noncurrent Loans (median multiple)	2.18	2.17	1.76	1.97	2.25
Net Loan Losses / Total Loans (median %)	0.13	0.13	0.17	0.19	0.17
Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.08	9.09	9.03	8.97	9.05
Return on Assets (median %)	1.15	1.16	1.16	1.17	1.17
Pretax Return on Assets (median %)	1.61	1.64	1.61	1.62	1.66
Net Interest Margin (median %)	4.65	4.65	4.60	4.66	4.73
Yield on Earning Assets (median %)	7.50	7.44	7.59	7.88	8.35
Cost of Funding Earning Assets (median %)	2.75	2.72	2.92	3.15	3.61
Provisions to Avg. Assets (median %)	0.27	0.28	0.27	0.26	0.26
Noninterest Income to Avg. Assets (median %)	0.78	0.80	0.83	0.80	0.80
Overhead to Avg. Assets (median %)	3.31	3.32	3.28	3.29	3.26
Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	73.3	71.4	70.2	70.4	67.9
Noncore Funding to Assets (median %)	24.0	22.9	21.4	20.8	20.8
Long-term Assets to Assets (median %, call filers)	7.6	9.8	9.0	10.1	10.9
Brokered Deposits (number of institutions)	162	119	108	98	78
Brokered Deposits to Assets (median % for those above)	7.5	5.9	5.5	4.4	4.0
Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	81.1	83.8	87.8	83.4	92.1
Commercial Real Estate	375.9	342.4	298.3	260.6	242.3
<i>Construction & Development</i>	113.1	89.9	66.7	54.8	47.1
<i>Multifamily Residential Real Estate</i>	5.5	4.7	4.0	2.9	3.0
<i>Nonresidential Real Estate</i>	203.0	196.3	183.6	172.1	147.5
Residential Real Estate	166.5	171.5	184.0	180.3	183.6
Consumer	45.3	51.3	61.9	67.0	74.1
Agriculture	11.4	11.6	12.8	14.4	15.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Atlanta-Sandy Springs-Marietta, GA	137	80,584	< \$250 million	255 (74.1%)
Chattanooga, TN-GA	27	6,310	\$250 million to \$1 billion	79 (23%)
Augusta-Richmond County, GA-SC	18	5,099	\$1 billion to \$10 billion	9 (2.6%)
Columbus, GA-AL	15	4,279	> \$10 billion	1 (0.3%)
Savannah, GA	20	4,027		